

## **Higher Education Governance – New Zealand Reforms**

Liz Rainsbury  
Head of Department  
Department of Accounting and Finance  
Unitec Institute of Technology  
Private Bag 92025  
Auckland  
New Zealand  
erainsbury@unitec.ac.nz  
0064 9 815 4321 ext 8803

Pam Malcolm  
Head of Department  
Department of Community and Health Services  
Unitec Institute of Technology  
Private Bag 92025  
Auckland  
New Zealand  
pmalcolm@unitec.ac.nz  
0064 9 815 4321 ext 5023

Carol Hart  
Senior Lecturer  
Department of Accounting and Finance  
Unitec Institute of Technology  
Private Bag 92025  
Auckland  
New Zealand  
chart@unitec.ac.nz  
0064 9 815 4321 ext 8419

### **Abstract**

This study examines recent governance reforms for New Zealand polytechnics. It examines the change in the composition of councils, including the skills and experience of council members to assess the extent to which the member profile of councils has changed to reflect legislative intent.

The findings show that governance capability of polytechnics has improved. In line with the government's wish to improve performance, a higher proportion of council members now have prior experience in governance, in senior management, and in accounting and finance. These changes were largely driven by the government appointed council members. Although the number of council members with experience in the education sector has declined they still represent one-fifth of council membership.

**Keywords: governance; reforms; councils; capability; agency; representation**

## 1.0 Introduction

The higher education system in New Zealand is comprised of universities, polytechnics, private training establishments, Wānanga and workplace training organisations each with specific functions set out in the New Zealand's Education Act 1989. Universities are state owned and provide academic, research-led programmes. Polytechnics are also state owned. They deliver vocationally oriented education and engage in applied research. Private training establishments are not government funded and are vocationally oriented, operating in niche areas. Wānanga are Māori (New Zealand's indigenous people) governed educational institutions providing education grounded in Māori traditions and customs, (section 162, Education Act, 1989). Workplace training organisations set standards for the training of apprentices.

Provision of education is one of the largest areas of government expenditure in New Zealand. In 2012 education spending reached NZ\$12.4 billion (New Zealand Treasury, 2012); with NZ\$4.15 billion allocated to the tertiary sector (Ministry of Education, 2013b). Total public tertiary education spending is 7.4 per cent of New Zealand's gross domestic product compared with an average of 6.2 per cent for member countries in the Organisation for Economic Co-operation and Development (OECD). Hence governance in the sector affects a large number of students and involves significant outlays of funds.

Higher education institutions vary across countries in their mix of state-centred, self-governing or market orientated governance. Since the 1980s there has been an increasing trend in New Zealand towards a mix of state-centred and market-oriented governance. The New Zealand government has introduced systems and processes similar to the private sector in the corporate governance of its agencies (Edwards, 2002). These include the appointment of boards based on private sector governance reforms (Chambers & Cornforth, 2010), the reduction in the size of governing bodies, and providing a clearer focus on roles and responsibilities as is done in the private sector (Edwards, 2002). The New Zealand government has introduced a series of reforms to ensure education institutions are operated efficiently and are accountable for their performance.

Institutes of Technology and Polytechnics (ITPs) are established under the Education Act 1989 and are governed by councils. In 2009 the government introduced the Education

(Polytechnics) Amendment Act (2009) with the aim of achieving a financially viable polytechnic sector providing high-quality educational outcomes for the community (New Zealand Parliament, 2009). To achieve these aims the amendment reduced the size of councils and the way in which council members are appointed.

The purpose of the study is to examine the change in the composition of polytechnic councils before and after the legislation came into effect. The reported skills and experience of polytechnic council members are compared and contrasted to assess the extent to which the member profile of councils has changed and if ‘governance capability’ has improved. In particular we examine if the non-government appointments were in line with policy makers intentions.

Examining the change in composition of councils in the polytechnic sector will provide guidance for policymakers if the governance reforms are extended to other tertiary providers such as to New Zealand universities (Grey, 2012; Ministry of Education, 2013a). The composition of the newly configured councils will also be of interest to governing bodies in the tertiary education sector, particularly the polytechnic sector, to act as a benchmark when considering new appointments.

The paper proceeds as follows. Section 2 covers a discussion of the background and literature. Section 3 describes the dataset and how it is analysed, Section 4 covers the findings which are then discussed in Section 5, and Section 6 concludes the paper.

## **2.0 Background and Literature Review**

### *2.1 Concepts of corporate governance*

At a broad level corporate governance refers to how organisations are governed and directed, and the systems that are in place to hold the organisation accountable (Chambers & Cornforth, 2010; Farrar, 2008). Edwards (2002) argues that corporate governance is best understood in terms of what it should create and encourage in an organisation if it is functioning correctly, i.e. “accountability, transparency, participation, relationship management and, depending on the context, efficiency and/or equity” (p.52). At a basic level corporate governance is concerned with who makes decisions in an organisation, how these decisions affect the running of the organisation, and how those who make the decisions can be held accountable. It involves establishing structures where objectives are set, strategies implemented and performance is monitored. It is also about relationships between management, the governing body and the equity holders and other stakeholders (Organisation for Economic Co-operation and Development (OECD), 2004). In the context of tertiary education institutions, corporate governance extends to the internal and external relationships within the organisations and the connections between these.

### *2.1 Governance models in the tertiary education sector*

In higher education, Dobbins, Knill & Vogtle (2011) draw on prior research to describe three governance models in higher education that can be used as a basis for comparing approaches in different countries. These models are state-centred, self-governance, and market-oriented models.

In the state-centred model universities are state-operated institutions. In this model the state has a direct role in many aspects of higher education including academic processes and the appointment of senior academics and management. The advantage of this governance model is that the higher education institutions are the means by which the state can achieve national education objectives. The drawback is that all institutions tend to be treated in uniform ways with little autonomy.

The next model is based on the notion of the academic institution as a self-governing community of scholars. University governance is based on a “distinctive social institution which deserves special status in terms of autonomy and academic freedom based on a ‘social compact’ that evolved between higher education and the state society” (Enders, de Boer, & Weyer, 2013, p.7). In this model the professoriate has a great amount of freedom in creating and developing the academic and research profile of the institution and the potential power to block government initiatives. The chief disadvantage of this model is the potential disconnect between the goals of the university and the socio-economic goals of the state. This model has been characterised as being bureaucratic, with little emphasis on the quality of teaching and results in fragile stakeholder relationships with the state and society (Dobbins, Knill & Vogtle, 2011).

In the market-oriented model ideas, developed in the private sector and from New Public Management reforms, are used to operate run public organisations similar to private enterprises in order to enhance their efficiency and profitability. Educational institutions operate in an environment where they compete for students and financial resources and are entrepreneurial in focus. A key emphasis is on meeting students’ needs by improving the quality and range of services and target programmes to meet employer needs. It is contended that the market-oriented approach will make public sector enterprises more efficient and profitable, and ensure greater accountability (O'Donnell, O'Brien, & Junor, 2011). However, the ‘social compact’ has significantly decreased in recent years, as government intervention in educational institutions has increased in an effort to enhance their efficiency and profitability (Enders, de Boer, & Weyer, 2013.).

A key influence on the market-oriented model is agency theory. The theory views an organisation as a governance structure in which self-interested individuals operate to optimise their positions but often with incomplete information. The theory deals with the problems of getting managers and employees to act in the interest of the firm. Principals (shareholders/government) delegate the management of day-to-day operations to managers (agents) who act on behalf of the principals. An assumption of agency theory is that the interests of the agent and principal can conflict (Jensen & Meckling, 1976). The principal wishes to maximise wealth while the agent may act in their own self-interest. In the public sector “the government’s problem is one of contracting efficiently between principals and agents in a way that minimises the so-called “agency costs” of setting up and monitoring that

contractual relationship” (Scott, 1996). The agency influence resulted in similar approaches to frameworks and processes in the government including the governance of tertiary education institutions. These include: making governing bodies more accountable to the government, greater discretion by the governing bodies in managing the organisation, a clear distinction made between outputs for and outcomes to meet economic and social goals and financial accountability (Scott and Gorringer, 1989).

While the three models can be described independently, in reality higher education governance structures are usually a blend. The specific mix depends on the nature of the higher education environment in a country.

## 2.2 *Governance models in the New Zealand tertiary education sector*

Prior to the 1980’s the tertiary education governance model was state controlled. Universities were accountable to the University Grants Committee. The committee allocated government funds to the universities. In contrast the polytechnics were closely controlled by the Department of Education (OECD, 2008). The tertiary education system was described as being elite with the government funding only a small number of student places (McLaughlin, 2003).

In the 1980s New Zealand’s economic performance was deteriorating. The Lange Labour government introduced economic, social and political reforms to improve New Zealand’s economic performance. Tertiary education was seen as an important element in improving the country’s economic success with emphasis on up-skilling the workforce by increasing the number of students participating in tertiary education (McLaughlin, 2003). A trend toward a market-oriented governance model in tertiary education started. There was an increased focus on accountability, performance, quality outcomes, and the alignment of education strategy and priorities to meet New Zealand socio-economic goals (McLaughlin, 2003; OECD, 2008). Shore and Taitz (2012) argue that the competitive market approach was to treat educational institutions as international business enterprises “whose primary purposes are to generate revenue, develop research that is deemed ‘relevant’ to the current economic and political objectives of the state, and train students to become flexible workers whose skills meet the needs of employers in the global knowledge economy” (p.

205-206). This focus for educational institutions to achieve socio-economic goals has been criticised as impinging on academic freedom and autonomy as more emphasis is given to the views of government officials and industry stakeholders about what is to be taught (Grey, 2012).

Further emphasis on accountability and performance was introduced with the passage of the New Zealand Education Amendment Act 1990. This legislation was aimed at giving tertiary institutions autonomy and academic freedom while encouraging them to operate efficiently and to be accountable for public funds. This Act gave all tertiary educational institutions, not only universities, autonomy to govern (Boston, 1997). All tertiary institutions are subject to these objectives:

The object of the provisions of this Act relating to institutions is to give them as much independence and freedom to make academic, operational, and management decisions as is consistent with the nature of the services they provide, the efficient use of national resources, the national interest, and the demands of accountability. (Education Act 1989, section 160).

Section 161 (Education Act, 1989) outlines the government's intentions to preserve academic freedom and institutional autonomy. Thus polytechnics are given autonomy to manage their affairs but there is accountability to the government for the efficient use of resources and acting in the national interest – a mix of the state-centred and market-oriented models

The government's present vision for tertiary education is set out in the Tertiary Education Strategy 2010-2015 (Ministry of Education, 2010). The vision is for a world-leading education system that equips all New Zealanders with the knowledge, skills and values to be successful citizens in the 21st century. The strategy identifies seven short term priorities to meet the vision in a Statement of Education Priorities. These are: increasing the success of Māori and Pacific students, improving literacy, language, numeracy and skills outcomes at sub-degree levels, increasing the participation rate of young people in tertiary education, improving research outcomes and "improving the educational and financial performance of providers" (Ministry of Education, 2010, p.10). Tertiary institutions are required to develop a three year Investment Plan outlining how the government priorities will be achieved and specifying the outcomes. The plans are negotiated with the Tertiary Education Commission

and financial (Education Counts, 2013) and education (Tertiary Education Commission, 2013) performance are monitored.

## *2.2 Governance of New Zealand polytechnics*

There are 18 institutions in the New Zealand polytechnic sector. They enrol approximately 157,000 students including 12,700 international students (Ministry of Education, 2012). Polytechnics are body corporates; legal entities that can have the “rights, privileges of a natural person” (section 192, Education Act, 1989) to hold property and be sued.

Polytechnics are governed by a council (section 165, Education Act 1989). The council functions are specified and its duties include appointing the chief executive officer, setting long term strategic objectives, and preparing and negotiating a three year Investment Plan. The council then has to implement policies to ensure that the organisation is managed in line with the plan.

The composition of polytechnic councils is specified in the Education Act 1989. In the 1990 amendment the composition of polytechnic councils was made consistent with those of the universities. It was a state-centred representative model which required inclusion of a number of stakeholders with an interest in tertiary education (Heath & Norman, 2004). The councils were quite large requiring a minimum of 12 and a maximum of 20 members to accommodate the various stakeholder groups. Councils had to include: four individuals appointed by the government, the institution’s chief executive, between one to three academic staff, general staff and student representatives, one representative each of employer and labour organisations, and where appropriate, representatives of professional bodies (section 171 (2), Education Act 1989).

In the 1990s the Ministry of Education, Treasury, and the Business Roundtable were critical about the representative model for councils. They issued a White Paper *Tertiary Education in New Zealand: Policy Directions for the 21<sup>st</sup> Century* (New Zealand Government, 1998) proposing changes. Councils were deemed to be too large to allow even engagement and contribution by its members. Decision-making was often devolved to various sub-committees with council members then rubber stamping decisions without having a sound understanding of key issues. The stakeholder representative model also created confusion about the accountability of members. The White Paper asserted that council members

primarily represented their own interests and not that of the institution. There were claims that the presence of internal stakeholders (internal agents) – the chief executive, staff and student representatives - created serious conflicts of interest in terms of the appointment and remuneration of the chief executive as well as remuneration of staff (Boston, 1997). Boston quotes from a Victoria University Working Party on Governance:

A strong argument can be made that the governing body should focus on its roles as stewards and trustees...and not made up in a representative fashion by stakeholders. The membership of the governing body should instead be expertise based: academic, financial, management, legal, fund raising, community relations etc. (Boston, p.18).

The White Paper stressed the need for councils to be dynamic, flexible, innovative and to perform well. These demands required council members to be highly skilled and competent to meet future challenges. The view expressed was that council membership would be based on “expertise and skills rather than on representations” p. 38 (New Zealand Government, 1998).

## *2.5 New structure of polytechnic councils*

The Education (Polytechnics) Amendment Act (2009) introduced new governance arrangements and appointment practices for polytechnic councils to improve the financial and academic performance of polytechnics.

The size of councils was reduced to eight members to make polytechnic councils more manageable and to facilitate better decision making (section 222AA, Education Act 1989). Four of the council members are appointed by the Minister of Tertiary Education and those four members appoint the remaining four members. The Minister also appoints the chairman and deputy chairman of each polytechnic. This gives the government the power to ensure councils have certain kinds of expertise.

Governance arrangements were clarified with individual council members duties defined in the legislation. Council members are to act with honesty and integrity, serve the interests of the council and not their individual interests, exercise due care, diligence and skill and not disclose confidential information about the council’s functions unless authorised (section

222AH, Education Act 1989). These duties are in addition to the collective duties of the council. The Minister for Tertiary Education has the power to remove council members for just cause which includes breaches of any of the collective or individual duties (section 222AJ, Education Act 1989).

Table 1 summarises the changes to the governance model.

*Insert Table 1*

## *2.6 Council capability*

The legislation requires that the Minister of Tertiary Education consider several factors when making appointments to polytechnic councils. These factors include the individual's knowledge, skills and experience to carry out a governance role, the desirability of having Māori representation, and the desire to reflect the ethnic and socio-economic diversity of the local community being served (section 222AD, Education Act 1989). The state-appointed members are directed to appoint individuals to the remaining positions who have governance capability. In regions where governance capability may be difficult to find, collaborative governance arrangements are permitted, enabling councils to combine (section 222AL, Education Act 1989) and council members to sit on more than one council (section 222AC, Education Act 1989).

The legislation requires council members to have appropriate skills and experience to govern. Guidance for doing so can be found in New Zealand's Corporate Governance Principles and Guidelines (2004). It states that effective boards require a balance of independence, knowledge, skills, experience, and perspectives which may vary from organisation to organisation. The government in its White Paper (1998) noted that council members needed skills in the areas of business management, finance, and strategic planning as well as knowledge of education and research

Further guidance on desirable director attributes are documented in academic and professional publications reflecting the different perspectives taken by the writers. For example, from a professional perspective the Institute of Directors in New Zealand (2007) identifies seven key categories of competency for effective directors. These are general

competencies, strategic competencies, analytical competencies, operational competencies, character competencies, communication/interaction competencies and knowledge competencies.

In the academic literature Hillman, Cannella, and Paetzold (2000) and Hillman et al. (2009) identify four desirable categories of director expertise based on the types of resources they bring to an organisation. Directors can be insiders that provide information about the firm, business experts that provide expertise for internal decision making processes within firms, support specialists that provide external links to support strategy, and community influencers that provide connections to community and government organisations. In contrast Singh, Terjesen, and Vinnicombe (2008), use a human capital perspective to develop a taxonomy of an individual director's knowledge, skills and experiences and how these capabilities contribute to an organisation. The taxonomy includes director education levels, board of director and executive director experience, relevant career experience, reputation and status. Van der Walt and Ingley (2003) also develop a taxonomy of director attributes for assuring board diversity.

In a review of New Zealand tertiary governance Edwards (2003) concludes that council members should have knowledge of the tertiary education sector and the needs of the community/region which the tertiary education institution serves. Council members should have governance experience, financial management skills, strategic management/planning skills, and the ability to implement strategy.

Although there is diversity in the recommended attributes for council members, there are some areas of common agreement. Members with knowledge of education and research are sought to ensure awareness and understanding of the sector. Previous governance or senior management experience is needed to ensure that appropriate systems and policies are put in place. Skills and expertise are required in financial management and strategy. Common personal qualities include leadership, independence/objectivity, ethical standards, teamwork and communications skills.

## *2.7 Research questions*

The governance of polytechnics in New Zealand reflects a mix of the state-centred and market-oriented model. Both the Minister and government-appointed members must appoint individuals with the knowledge skills and experience to be able to govern. The reported skills and experience of polytechnic council members are analysed to answer the following research questions:

- 1. Did the member profiles of councils subsequent to the passing of the Education (Polytechnics) Amendment Act (2009) improve ‘governance capability’?**
- 2. Did the government appointed council members appoint the remaining council members with attributes specified as desirable in the legislation?**

## **3.0 Dataset and Analysis**

The dataset is comprised of the attributes of the council members for all New Zealand polytechnics from 2009 to 2011 (see the Appendix). The three years selected cover the period before and after the implementation of the governance reform legislation. The first year 2009 is prior to the legislation. The second year (2010) is a year of transition as the change in the make-up of councils was made effective on 1 March 2010 (section 16, Education (Polytechnics) Amendment Act 2009). The third year (2011) year is post implementation of the new requirements.

Data was collected at the annual balance date of 31 December each year to ensure consistency of comparison. Information on each council member was collected over the three-year period from publicly available sources. In total 542 council member profiles were reviewed and collated.

The information collected related to council members’ age, gender, ethnicity, academic qualifications, governance, work and sector experience. The analysis compared government and non-government appointed members to identify any differences in any of these areas. To ensure consistency of comparison the internal 2009 ITP council representatives for academic

staff, general staff and student representatives are separately disclosed. The skills and experience of polytechnic council members before and after the governance changes were compared to assess if ‘governance capability’ had improved. The member profile of each polytechnic council was examined to identify the specific skills of members.

The data collection was limited by the availability of public information on council members and the lack of consistency in disclosures by polytechnics about their council. For example, in the collection of 2011 data it was sometimes difficult to ascertain whether a member’s appointment represented a certain stakeholder group. Classifying Māori representation was particularly difficult. The approach adopted was that if a council member was listed as a trustee of a Māori trust this was interpreted as Māori representation.

#### **4.0 Findings**

Our analysis provides the overall profile of the 18 councils. However, the profile of each polytechnic will differ from the aggregated data. This limitation should be taken into account when evaluating the results.

There were 256 council members in 2009, dropping to 144 members in 2011, nearly halving council size. We turn now to an analysis of the change in the composition of polytechnic councils. The analysis focuses on comparing the education qualifications, industry and professional work experience of members. Member experience in the oversight of organisations and in managing organisations at a senior level are compared and contrasted. Tables 2 to 6 analyse the skills and experience of the council members in terms of education background, work and governance experience.

The educational qualifications of council members are reported in Table 2. The qualifications of government and non-government council members are also compared.

*Insert Table 2*

The proportion of members who have degrees (Bachelors, Masters and PhDs) has increased substantially from just over half of members having tertiary qualifications (56 per cent) in 2009 to three-quarters (75 per cent) in 2011. A slightly higher number of members with

tertiary qualifications came from government appointments. This proportionate increase is partly due to councils no longer being required to have student, general staff and union representation.

A council requires a range of skills, experience and perspectives (Edwards, 2003; Securities Commission, 2004). Table 3 shows the industry sectors that the council members have predominantly worked in.

*Insert Table 3*

The Australian and New Zealand Standard Industrial Classification system was applied to analyse the data. In 2009 the council profile is dominated by internal representatives and by members with education and training backgrounds (35 per cent of the total). This proportion reduces to 22 per cent of the total in 2011. The council profile in 2011 is dominated by members with experience in the professional, scientific and technical services (2011:44 per cent of the total; 2009: 24 per cent of the total). This sector includes legal, accounting and management consulting services. This change is consistent with the desire for councils to have members with financial management, strategic planning, and implementation experience as highlighted in the White paper (1998). A comparison of government and non-government appointees indicates the government's emphasis on ensuring that there is technical expertise balanced with members with experience in the education sector is mirrored by the non-government appointments.

This emphasis on technical expertise is also supported by Table 4 which shows the nature of the professional work experience of council members.

*Insert Table 4*

The board profile shows that the proportion of members with management consulting or accounting-banking-finance backgrounds increased from 38 per cent in 2009 to 53 per cent in 2011. These changes are clearly evident with the government appointments; of the 72 appointments 20 (27 per cent of government appointments) had management consulting experience and 13 (18 per cent of government appointments) accounting, banking and finance experience. For non-government appointments management consulting experience

continued to be important but fewer appointments of members with accounting and finance experience were made.

The representation of members with an education sector background was reduced with the repeal of the legislation requiring the appointment of one to three academic staff members on a polytechnic council. However, Table 4 shows that members with an education sector background still comprise 19 per cent of the total council membership in 2011.

The legislation states that “it is desirable in principle that a polytechnic council should include Māori” (Education Act, 1989, section 222D). During the legislative process concern was raised that a “desire” was not sufficient to ensure that Maori representation was maintained (New Zealand Parliament, 2009a). Table 3 shows there is little change in the proportion of Māori representation on ITP councils. However, as explained earlier polytechnics do not always make it clear which members represent Māori interests.

Council members’ prior experience in governance and senior executive positions are documented in Tables 5 and 6.

*Insert Table 5*

Table 5 shows council members’ previous governance experience as a director or trustee. In 2011, 75 per cent of the council members had director or trustee experience compared with only 47 per cent in 2009. The significant increase in governance experience has been largely driven by the government appointees as there is little change in the profile of non-government appointed members between 2009 and 2011.

Table 6 shows a significant increase in members with executive director experience. In 2011 around 90 per cent of council members had executive experience at the chief executive, chief operating, divisional manager, or financial officer level compared with 64 per cent of members in 2009. Once again this change appears to be primarily driven by government appointments.

## **5.0 Discussion of the findings**

The analysis shows that the number of council members with degrees has increased. The makeup of councils has changed from having just over half of members with tertiary qualifications to nearly three-quarters.

In 2011, 44 per cent of council members had backgrounds in the professional, scientific and technical services. This total is a significant increase from 24 per cent in 2009. The increase in accounting and finance backgrounds accords well with the government desire to improve the financial viability of the polytechnic sector.

The council profile in 2011 shows a significant increase in members with director experience. The percentage of members who have been company directors of listed and unlisted companies or trustee duties has increased from just over 47 per cent in 2009 to 75 per cent in 2011. The larger increase is from the government appointees, from 16 per cent in 2009 to 36 per cent in 2011. Similarly the percentage of members with experience at managing director level has increased from 44 per cent in 2009 to 59 per cent in 2011. The level of executive experience increases when the definition of experience is extended to include other executive positions--reaching 89 per cent of members with some form of senior management experience. Overall, the council member profiles show a significant increase in governance experience.

The analysis supports a conclusion that the capability of council members has improved in terms of tertiary education backgrounds, technical skills and expertise in accounting and finance and management. In particular governance experience has improved as a result of members with governance of organisations and senior management experience. In terms of the research, question member profiles of councils subsequent to the passing of the Education (Polytechnics) Amendment Act (2009) have been improved. In comparing the profile of government and non- government council members the results suggest that the significant changes in council capability arose primarily from the government appointments.

The improvement in capability has been achieved while balancing the need to have members with knowledge of the education sector. The results show that while the number of members

from the education has declined they still retain influence as they represent one-fifth of council membership.

The quantitative results support the consensus from interviews with polytechnic council chairs and selected senior executives that council capability had improved especially in governance experience reported by The Tertiary Education Commission's ( 2011). The Commission's investigation of the short term impacts of the legislative changes found that council members now have greater awareness of their roles and responsibilities which has led to improved engagement within the council and with senior management. Processes have also been introduced to support the council operations.

## **6.0. Conclusion**

The New Zealand government introduced legislation to change the governance arrangements of polytechnic councils to improve members' capability to govern. The governance focus has moved to a mixed predominantly state-centred and market-oriented model where councils are made more accountable to the government for their academic outcomes and financial performance. This continues a trend beginning in the 1980s of improving performance and accountability in the tertiary education sector.

The new legislation requires that polytechnic council members have the skills and experience to govern. We assess the change in skills and experience of council members before and after the new legislation to determine if governance capability has improved. The results indicate a substantial improvement in capability with seventy-five per cent of council members with some form of director/trustee experience and 90 per cent with senior management experience. The desire of government to improve financial performance of polytechnics has translated into the proportion of members with accounting and finance expertise increasing from 13 per cent to 25 per cent of members.

Half of the eight members of a polytechnic council are appointed by the Minister of Tertiary Education with the balance selected by the government appointees. The profile of government and non- government appointed council members are compared in terms of the director attributes desired and find that improvement in council governance capability arose primarily from the government appointments.

The short term evidence is that governance capability of council members has improved with an understanding of responsibilities and process. However, the ultimate evidence will be an improvement in the academic and financial performance of polytechnics which awaits future research and evaluation.

## References

- Boston, J. (1997). The ownership, governance and accountability of tertiary institutions in New Zealand. *The New Zealand Annual Review of Education*, 6, 5-58.
- Chambers, N., & Cornforth, C. (2010). The role of corporate governance and boards in organisational performance. *Connecting knowledge and performance in public Services: From knowing to doing*. Retrieved from [http://oro.open.ac.uk/23907/2/Chapter\\_on\\_governance\\_boards\\_and\\_performance\\_020709.pdf](http://oro.open.ac.uk/23907/2/Chapter_on_governance_boards_and_performance_020709.pdf)
- Dobbins, M., Knill, C. & Vogtle, E. (2011). An analytical framework for the cross-country comparisons of higher education governance. *Higher Education*, 62, 665-683.
- Education (Polytechnics) Amendment Act. (2009). *New Zealand Parliament*. Retrieved from <http://www.legislation.govt.nz/act/public/2009/0070/latest/DLM2294208.html>
- Education Act. (1989). *New Zealand Parliament*. New Zealand: Retrieved from [http://www.legislation.govt.nz/act/public/1989/0080/latest/DLM175959.html?search=ts\\_act%40bill%40regulation%40deemedreg\\_Education+Act+1989\\_resele\\_25\\_h&p=1](http://www.legislation.govt.nz/act/public/1989/0080/latest/DLM175959.html?search=ts_act%40bill%40regulation%40deemedreg_Education+Act+1989_resele_25_h&p=1).
- Education Counts. (2013). *Key financial performance indicators for public tertiary education institutions*. from <http://www.educationcounts.govt.nz/indicators/main/quality-education-provider/2023>
- Edwards, M. (2002). Public sector governance - future issues for Australia. *Australian Journal of Public Administration*, 61(2), 51-61.
- Edwards, M. (2003). *Review of New Zealand tertiary institution governance*. Retrieved from [http://www.atem.org.au/uploads/publications/20-Tertiary\\_Governance.pdf](http://www.atem.org.au/uploads/publications/20-Tertiary_Governance.pdf).
- Enders, J., de Boer, H., & Weyer, E. (2013). Regulatory autonomy and performance: the reform of higher education re-visited. *Higher Education*, 65(1), 5-23.
- Farrar, J. (2008). *Corporate governance: Theories, principles and practice* (3 ed.): Oxford University Press.
- Grey, S. (2012). *Responsible autonomy for institutions through independent councils*. from <http://teu.ac.nz/2012/10/independence-responsible-autonomy-and-public-control-the-keys-to-good-governance-in-tertiary-education/>
- Heath, J. , & Norman, W. (2004). Stakeholder theory, corporate governance and public management: What can the history of state-run enterprises teach us in the post-Enron era? . *Journal of Business Ethics*, 53(63), 247-265.
- Hillman, A., Cannella, A., & Paetzold, R. (2000). The resource dependence role of corporate directors: strategic adaptation of board composition in response to environmental change. *Journal of Management Studies*, 37(2), 235-255.

- Hood, C. . (1995). The “new public management” in the 1980s: Variations on a theme. *Accounting Organisations and Society*, 20(3), 93-109.
- Institute of Directors in New Zealand. (2007). *Principles of best practice for New Zealand Directors. The four pillars of effective board governance*. Wellington.
- Jensen, M., & Meckling, W. H. (1976). Theory of the firm and managerial theory. Agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.
- McLaughlin, M. (2003). Tertiary education policy in New Zealand. from [http://www.fulbright.org.nz/wp-content/uploads/2011/12/axford2002\\_mclaughlin.pdf](http://www.fulbright.org.nz/wp-content/uploads/2011/12/axford2002_mclaughlin.pdf)
- Ministry of Education. (2010). *Tertiary education strategy 2010-2015*. Wellington: New Zealand: Retrieved from [http://www.minedu.govt.nz/NZEducation/EducationPolicies/TertiaryEducation/PolicyAndStrategy/~/\\_media/MinEdu/Files/TheMinistry/TertiaryEducationStrategy2010/TES2010to2015.pdf](http://www.minedu.govt.nz/NZEducation/EducationPolicies/TertiaryEducation/PolicyAndStrategy/~/_media/MinEdu/Files/TheMinistry/TertiaryEducationStrategy2010/TES2010to2015.pdf).
- Ministry of Education. (2012). *Profiles and trends 2011: New Zealand's tertiary education sector*. Retrieved from [http://www.educationcounts.govt.nz/\\_data/assets/pdf\\_file/0015/114621/p-and-t-2011-stage-1-final-graphs-into-images1.pdf](http://www.educationcounts.govt.nz/_data/assets/pdf_file/0015/114621/p-and-t-2011-stage-1-final-graphs-into-images1.pdf)
- Ministry of Education. (2013a). *Review of the Legislative Settings for University Governance: Consultation Document*. Wellington Minsitry of Education
- Ministry of Education. (2013b). *Tertiary Education - budget 2013 factsheet*. Retrieved from <http://www.minedu.govt.nz/theMinistry/Budget/Budget13/FactsheetsBudget2013/TertiaryFacts.aspx>.
- New Zealand Government. (1998). *Tertiary education in New Zealand: Policy directions for the 21st Century*. Wellington
- New Zealand Parliament. (2009). *Parliamentary Debates (Hansard) 26 August 2009. Education (Polytechnics) Amendment Bill - First Reading*. Retrieved from [http://www.parliament.nz/en-NZ/PB/Debates/Debates/d/e/1/49HansD\\_20090826\\_00001122-Education-Polytechnics-Amendment-Bill-First.htm](http://www.parliament.nz/en-NZ/PB/Debates/Debates/d/e/1/49HansD_20090826_00001122-Education-Polytechnics-Amendment-Bill-First.htm).
- New Zealand Treasury. (2012). Analysis of expenses by functional classification for the year ended 30 June 2012 from <http://www.treasury.govt.nz/government/financialstatements/yearend/jun12/018.htm>
- O'Donnell, M., O'Brien, J., & Junor, A. (2011). New public management and employment relations in the public services of Australia and New Zealand. *International Journal of Human Resource Management*, 22(11), 2367-2383.

- Organisation for Economic Co-operation and Development. (2004). *OECD principles of corporate Governance*. Retrieved from <http://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf>
- Organisation for Economic Cooperation and Development (OECD). (2008). *Tertiary education for a knowledge society*. Paris.
- Securities Commission. (2004). *Corporate governance Principles and Guidelines: A handbook for Directors, Executives and advisers*. Wellington: Securities Commission New Zealand  
Retrieved from <http://www.fma.govt.nz/media/178375/corporate-governance-handbook.pdf>.
- Singh, V., Terjesen, S., & Vinnicombe, S. (2008). Newly appointed directors in the boardroom. How do women and men differ? *European Management Journal*, 26, 48-58.
- Shore, C., & Taitz, M. . (2012). Who 'owns' the university? Institutional autonomy and academic freedom in an age of knowledge capitalism. *Globalisation, Societies and Education*, 10(2), 201-219.
- Tertiary Education Commission. (2011). Review of Governance Change: Evaluation of the implementation and short-term outcomes of the change from <http://www.tec.govt.nz/Documents/Reports%20and%20other%20documents/2011-Review-of-Governance-Change-Evaluation.doc>
- Tertiary Education Commission. (2013). What is an Investment Plan. from <http://www.tec.govt.nz/Resource-Centre/Frequent-questions/Providers/What-is-an-Investment-Plan/>
- Van der Walt, N., & Ingley, C. (2003). Board dynamics and the influence of professional background, gender and ethnic diversity of directors. *Corporate Governance: An International Review*, 11(3), 218-234.

**Table 1: Comparison of Polytechnic Councils Pre and Post Governance Reforms**

	<b>Prior to Governance Reforms</b>	<b>Governance Reforms</b>
<b>Size of Council</b>	Large 12-20 members	Small 8 members
<b>Council appointments</b>	<ul style="list-style-type: none"> <li>• 4 ministerial appointees:</li> <li>• the chief executive of the polytechnic:</li> <li>• at least 1 and up to 3 elected representatives of the polytechnic’s academic staff:</li> <li>• at least 1 and up to 3 elected representatives of the polytechnic’s general staff:</li> <li>• at least 1 and up to 3 elected representatives of the polytechnic’s student body:</li> <li>• an employer representative</li> <li>• an employee representative</li> <li>• if relevant, one or more representatives from a relevant professional body.</li> </ul>	<ul style="list-style-type: none"> <li>• 4 members appointed by the Minister of Tertiary Education (Minister)</li> <li>• 4 members appointed by Council</li> </ul>
<b>Appointment considerations</b>	<p>The <i>Minister and Council</i> to ensure sufficient number of council members with expertise in management to perform the Council functions</p> <p>The <i>Council</i> to consider the desirability of reflecting</p> <ul style="list-style-type: none"> <li>• the ethnic and socio-economic diversity of the community served</li> <li>• gender.</li> </ul>	<p>The <i>Minister</i> must consider:</p> <ul style="list-style-type: none"> <li>• the desirability of Māori representation</li> <li>• the desirability of reflecting the ethnic and socio-economic diversity of the community served</li> <li>• the relevant individual knowledge, skills and experience to carry out governance role</li> </ul> <p>The <i>Council</i> must consider relevant knowledge, skills and experience to carry out governance role</p>
<b>Role of Chief Executive on Council</b>	A council member	Not necessarily appointed as a council member
<b>Co-opted council members</b>	Additional council members may be co-opted subject to constitution and size requirements	No co-opting powers
<b>Term of office</b>	No more than four years Except for student representative one year	No more than four years
<b>Council Members duties</b>	Individual council member duties not specified	<ul style="list-style-type: none"> <li>• act with honesty and integrity</li> <li>• act in the interests of the polytechnic</li> <li>• act in good faith – do not pursue personal interests at the expense of the council’s interests;</li> <li>• exercise care, diligence, and skill</li> </ul>

		<ul style="list-style-type: none"> <li>• disclose confidential information</li> </ul>
<b>Removal of Council Members</b>	Council has power to dismiss under certain conditions	<ul style="list-style-type: none"> <li>• Minister may dismiss the council chairperson or deputy chairperson without reason</li> <li>• Minister can dismiss other council members with just cause</li> </ul>

**Table 2: Polytechnic Council Members Educational Qualifications**

	Year					
	2009		2010		2011	
	n	%	n	%	n	%
<b>All appointments</b>						
PhDs	17	7	18	13	20	14
Masters	40	16	33	23	34	24
Bachelors	85	33	51	36	53	37
<b>Sub-total</b>	<b>142</b>	<b>56</b>	<b>102</b>	<b>72</b>	<b>107</b>	<b>75</b>
Diplomas and Certificates	18	7	8	6	9	6
Not available	47	18	32	23	28	19
Prior ITP representation – see below	49	19	0	0	0	0
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>
<b>Prior ITP representation</b>						
Academic Staff Rep	17	7	0	0	0	0
Allied Staff Rep	16	6	0	0	0	0
Student Rep	16	6	0	0	0	0
<b>Subtotal</b>	<b>49</b>	<b>19</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>
	Year					
	2009		2010		2011	
	n	%	n	%	n	%
<b>Government appointments</b>						
PhDs	3	1	11	8	11	8
Masters	13	5	18	13	19	13
Bachelors	32	13	26	18	26	18
<b>Sub-total</b>	<b>48</b>	<b>19</b>	<b>55</b>	<b>39</b>	<b>56</b>	<b>39</b>
Diplomas and Certificates	6	2	3	2	3	2
Not available	14	5	13	9	13	9
<b>Subtotal</b>	<b>68</b>	<b>27</b>	<b>71</b>	<b>50</b>	<b>72</b>	<b>50</b>
<b>Non-government appointments</b>						
PhDs	14	5	7	5	9	6
Masters	27	11	15	11	15	10
Bachelors	53	21	25	18	27	19
<b>Sub-total</b>	<b>94</b>	<b>37</b>	<b>47</b>	<b>33</b>	<b>51</b>	<b>36</b>
Diplomas and Certificates	12	5	5	4	6	4
Not available	33	13	19	13	15	10
<b>Subtotal</b>	<b>139</b>	<b>54</b>	<b>71</b>	<b>50</b>	<b>72</b>	<b>50</b>
<b>Prior ITP representation</b>	<b>49</b>	<b>19</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>

**Table 3: Polytechnic Council Members' Industry Sector Experience**

	Year					
	2009		2010		2011	
	n	%	n	%	n	%
<b>All appointments</b>						
Professional, scientific & technical	62	24	57	40	63	44
Education & training and ITP representation	90	35	27	19	31	22
Public administration and safety	27	11	13	9	10	7
Other services	24	9	9	6	7	5
Māori trust	15	6	8	6	8	6
Agriculture, forestry and fishing	12	5	8	6	5	3
Wholesale, retail and other services	10	4	9	6	10	7
Administrative & support	8	3	4	3	3	2
Electricity, gas, water and waste	3	1	2	1	2	1
Manufacturing	4	2	4	3	4	3
Construction	1	0	1	1	1	1
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>
	Year					
	2009		2010		2011	
	n	%	n	%	n	%
<b>Government appointments</b>						
Professional, scientific & technical	32	13	36	25	37	26
Education & training	9	4	13	9	14	10
Public administration and safety	4	2	4	3	4	3
Other services	6	2	2	1	2	1
Maori trust	3	1	2	1	2	1
Agriculture, forestry and fishing	1	0	2	1	2	1
Wholesale, retail and other services	6	2	6	4	5	3
Administrative & support	3	1	1	1	1	1
Electricity, gas, water and waste	3	1	2	2	2	1
Manufacturing	1	0	3	2	3	2
Construction	0	0	0	0	3	0
<b>Subtotal</b>	<b>68</b>	<b>27</b>	<b>71</b>	<b>50</b>	<b>72</b>	<b>50</b>
<b>Non-government appointments</b>						
Professional, scientific & technical	30	12	21	15	26	18
Education & training	32	13	14	10	17	12
Public administration and safety	23	9	9	6	6	4
Other services	18	7	7	5	5	3
Maori trust	12	5	6	4	6	4
Agriculture, forestry and fishing	11	4	6	4	3	2
Wholesale, retail and other services	4	2	3	2	5	3
Administrative & support	5	2	3	2	2	1
Manufacturing	3	1	1	1	1	1
Construction	1	0	1	1	1	1
<b>Subtotal</b>	<b>188</b>	<b>54</b>	<b>71</b>	<b>50</b>	<b>72</b>	<b>50</b>
<b>Prior ITP representation subtotal</b>	<b>49</b>	<b>19</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>

**Table 4 Polytechnic Council Members' Professional Work Experience**

	Year					
	2009		2010		2011	
	n	%	n	%	n	%
<b>All appointments</b>						
Management consulting	63	25	43	30	41	28
Education	41	16	24	17	27	19
Accounting-banking -finance	33	13	33	23	36	25
Engineering	12	5	8	6	7	5
Law	8	3	5	4	5	3
Science	5	2	4	3	5	3
Sales-Marketing	5	2	7	5	8	6
Other	40	16	18	13	15	10
Prior ITP representation	49	19	0	0	0	0
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>
	Year					
	2009		2010		2011	
	n	%	n	%	n	%
<b>Government appointments</b>						
Management consulting	16	6	20	14	20	14
Education	13	5	11	8	12	8
Accounting-banking -finance	16	6	22	15	23	16
Engineering	5	2	3	2	3	2
Law	3	1	4	3	3	2
Science	3	1	2	1	2	1
Sales-Marketing	3	1	3	2	3	2
Other	9	4	6	4	6	4
<b>Subtotal</b>	<b>68</b>	<b>27</b>	<b>71</b>	<b>50</b>	<b>72</b>	<b>50</b>
<b>Non-government appointments</b>						
Management consulting	47	18	23	16	21	15
Education	28	11	13	9	15	10
Accounting-banking -finance	17	7	11	8	13	9
Engineering	7	3	5	4	4	3
Law	5	2	1	1	2	1
Science	2	1	2	1	3	2
Sales-Marketing	2	1	4	3	5	3
Other	31	12	12	8	9	6
<b>Subtotal</b>	<b>139</b>	<b>54</b>	<b>71</b>	<b>50</b>	<b>72</b>	<b>50</b>
<b>Prior ITP representation subtotal</b>	<b>49</b>	<b>19</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>

**Table5: Polytechnic Council Members Prior Director Experience**

	Year					
	2009		2010		2011	
	n	%	n	%	n	%
<b>All appointments</b>						
Company – unlisted/listed	103	40	83	58	89	64
Trustee of trust or charity	19	7	17	12	16	11
No previous experience	76	30	37	26	32	22
Other unspecified	8	3	4	3	4	3
Prior ITP representation	49	19	0	0	0	0
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>
	Year					
	2009		2010		2011	
	n	%	n	%	n	%
<b>Government appointments</b>						
Company – unlisted/listed	40	16	53	38	55	38
Trustee of trust or charity	4	2	7	5	7	5
No previous experience	20	8	10	7	9	6
Other unspecified	3	1	1	1	1	1
<b>Subtotal</b>	<b>68</b>	<b>27</b>	<b>71</b>	<b>50</b>	<b>72</b>	<b>50</b>
<b>Non-government appointments</b>						
Company – unlisted/listed	63	25	31	22	37	26
Trustee of trust or charity	15	6	10	7	9	6
No previous experience	56	22	27	19	23	16
Other unspecified	5	2	3	2	3	2
<b>Subtotal</b>	<b>139</b>	<b>54</b>	<b>71</b>	<b>50</b>	<b>72</b>	<b>50</b>
<b>Prior ITP representation subtotal</b>	<b>49</b>	<b>19</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>

**Table 6: Polytechnic Council Members Prior Executive Director Experience**

	Year					
	2009		2010		2011	
	n	%	n	%	n	%
<b>All appointments</b>						
CEO/Managing Director	113	44	83	58	85	59
Divisional Manager	40	16	27	19	31	22
COO/CFO	9	4	11	8	11	8
No previous experience	24	9	17	12	15	10
Other unspecified	21	8	4	3	2	1
Prior ITP representation	49	19	0	0	0	0
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>
	Year					
	2009		2010		2011	
	n	%	n	%	n	%
<b>Government appointments</b>						
CEO/Managing Director	42	16	46	32	47	33
Divisional Manager	12	5	13	9	13	9
COO/CFO	3	1	6	4	6	4
No previous experience	7	3	6	4	6	4
Other unspecified	4	2	0	0	0	0
<b>Subtotal</b>	<b>68</b>	<b>27</b>	<b>71</b>	<b>50</b>	<b>72</b>	<b>50</b>
<b>Non-government appointments</b>						
CEO/Managing Director	71	28	37	26	38	26
Divisional Manager	28	11	14	10	18	13
COO/CFO	6	2	5	4	5	3
No previous experience	17	7	11	8	9	6
Other unspecified	17	7	4	3	2	1
<b>Subtotal</b>	<b>139</b>	<b>54</b>	<b>71</b>	<b>50</b>	<b>72</b>	<b>50</b>
<b>Prior ITP representation subtotal</b>	<b>49</b>	<b>19</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>256</b>	<b>100</b>	<b>142</b>	<b>100</b>	<b>144</b>	<b>100</b>

## Appendix: Membership of Institutes of Technology and Polytechnic Councils

	2009	2010	2011
Aoraki Polytechnic	13	8	8
Bay of Plenty Polytechnic	15	8	8
Christchurch Polytechnic Institute of Technology	16	8	8
Eastern Institute of Technology	16	8	8
Manukau Institute of Technology	15	8	8
Nelson Marlborough Institute of Technology	15	7*	8
Northland Polytechnic	14	8	8
Open Polytechnic	12	8	8
Otago Polytechnic	15	8	8
Southland Institute of Technology	12	8	8
TaiPoutini Polytechnic	13	8	8
Unitec Institute of Technology	15	8	8
Universal College of Learning	14	8	8
Waiariki Institute of Technology	20	7**	8
Waikato Institute of Technology	13	8	8
Wellington Institute of Technology	14	8	8
Western Institute of Technology Taranaki	12	8	8
Whitireia Community Polytechnic	12	8	8
<b>Total</b>	<b>256</b>	<b>142</b>	<b>136</b>

\*An eight member of the NMIT Council, was appointed in February 2011 following consultation with Iwi (Māori tribe).

\*\* A council members resigned in October 2010

Source: New Zealand Qualifications Authority, 2013. Retrieved from <http://www.nzqa.govt.nz/providers-partners/about-education-organisations/itps-in-new-zealand/>.